



Slide 1

26<sup>th</sup> Annual  
FAA COMMERCIAL AVIATION FORECAST CONFERENCE

---

co-sponsored by Airports Council International – North America

**Global** GROWTH OPPORTUNITIES  
*for the* **NEW MILLENNIUM**




*Panel 2: Supply Issues/Constraints to Growth*  
*U.S. Air Traffic Demand, Capacity, Economic and Policy Issues*

March 13, 2001

---

Richard Golaszewski

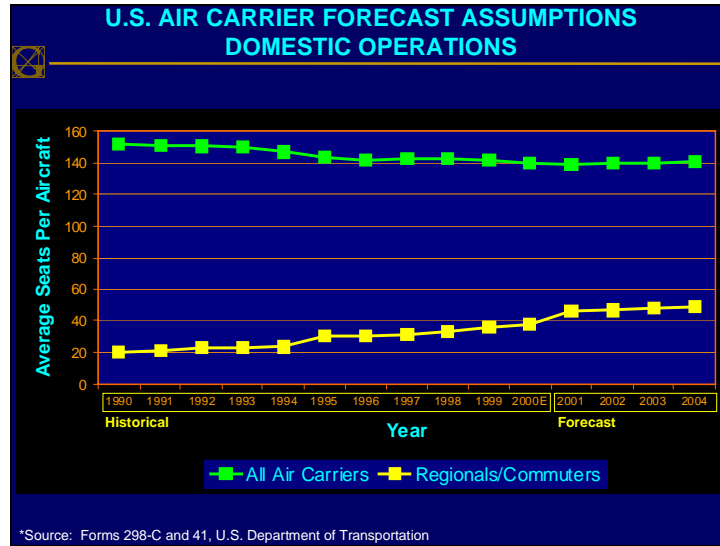
GRA, Incorporated



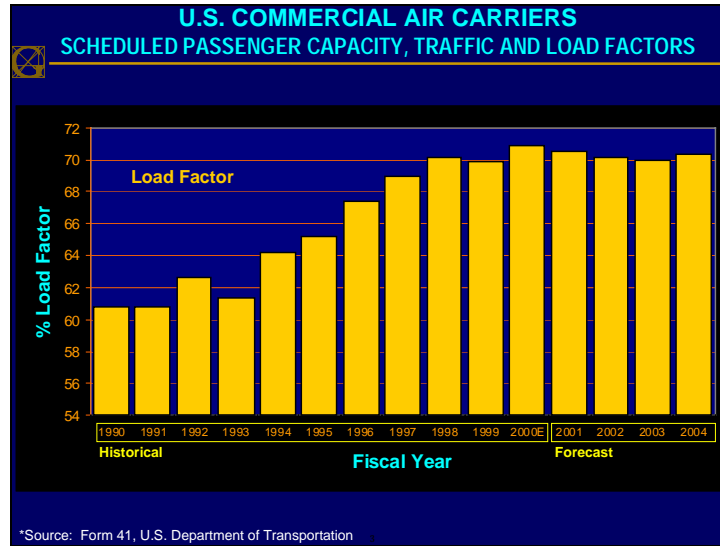
## THE DELAY PROBLEM

- Localized to certain facilities/geographic regions
  - Top 40 airports
  - Key en route airspace
- Plenty of excess capacity
  - Secondary airports
  - Underutilized primary facilities
- Current distribution of flights is in response to incentives
  - Carrier reactions to demands for service
    - Location
    - Frequency
  - Carrier reactions to supply of infrastructure
- Inability to expand congested facilities

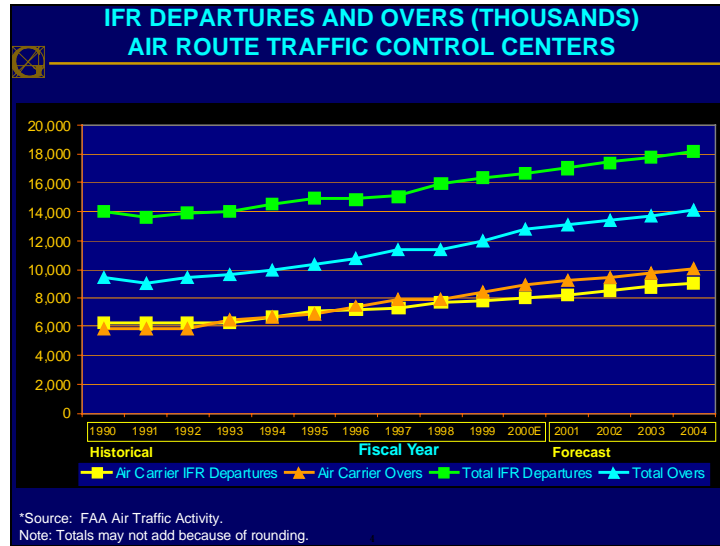
Slide 3



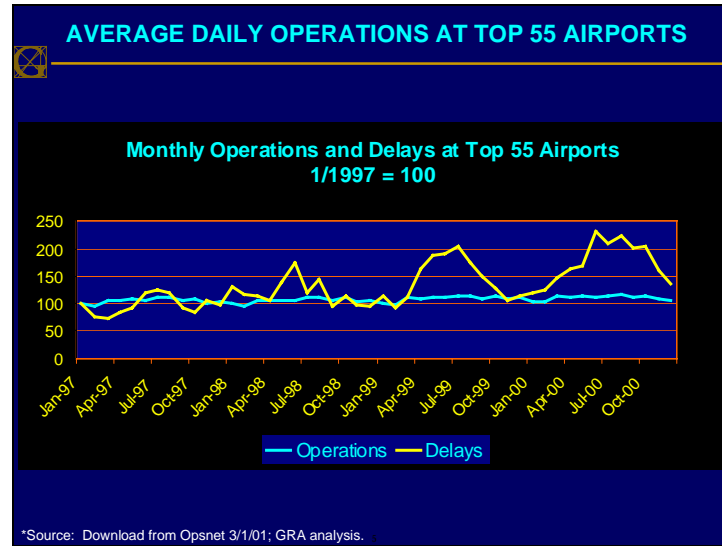
Slide 4

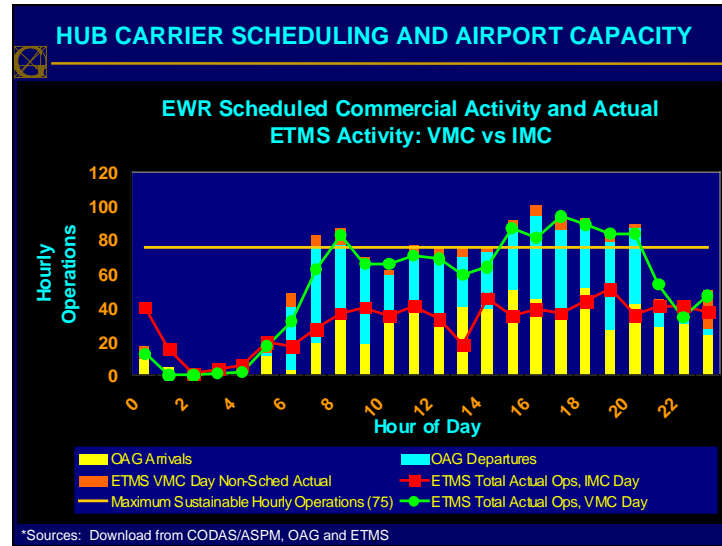



Slide 5



Slide 6








## INFRASTRUCTURE OBJECTIVES


- Allocative (consumption) efficiency
- Productive efficiency
- Efficient investment
- Balance supply and demand
  - Prices that are too low mean that a good or service will be under-supplied
  - Prices that are too low mean excess demand will exist
- Environmental compatibility





### WHAT ARE THE CHOICES IN THE U.S.?

- Capacity expansion
  - Runways
  - ATC
- Redistribute demand
  - No price signals
- Manage demand
  - Slots
  - Auctions
  - Pricing
- Status quo




## IMPLICATIONS OF STATUS QUO

- Delay and congestion/cancellations
  - Problems get worse
- Re-regulate capacity use at congested airports
- Return to slots
- Use of scheduling committees with anti-trust exemption



### ECONOMICS OF CAPACITY WELL KNOWN

- Airlines deregulated—Institutional rules of infrastructure supply have not changed
  - Airport pricing restricted
  - No prices for ATC
- No market-clearing price for aircraft operations
  - Airlines price scarcity subject to administrative allocation
  - All carriers seek out valuable landing rights
- Pricing resources do not go into capacity expansion
  - Use of proceeds from market pricing very contentious
  - Relative prices between primary and secondary airports skewed




## INEFFICIENT PRICING

- Supply/demand balance—no market-clearing price
- Relative prices wrong between congested/un-congested airports
  - Less incentive to move activity to lower cost facility
  - Less competition (fewer viable alternatives) among airports
- Lack of prices for ATC exacerbates problem




### USE OF PROCEEDS IS ONE KEY ISSUE

- Currently retained by airlines
- How to incentivize investment
  - In the airport
  - Around the airport
  - In the system
- Lock-box proposals for revenues above costs
  - Who allocates
  - Locational transfers
- Can more proceeds be dedicated to mitigating environmental barriers to growth?



### SOME KEY QUESTIONS FOR THE SHORT TERM

- Will new runways or ATC capacity help in the short run?
- Can we make better use of infrastructure without returning to administrative regulations or anti-trust exemptions?
- Can we shift demand to underutilized airports and airspace?
- Can we shift some demand by time of day?
- Can we shift demand to larger aircraft?
- How much capacity is enough?
  - How do we know?



### THE KEY SWING VARIABLES FOR SUMMER 2001

- The rate of traffic growth
- Collaborative decision-making (CDM) improvements and effectiveness
  - Airline schedules
  - Traffic management strategies
- Labor issues
- Incidence and location of severe weather